UNIVERSITY OF JOHANNESBURG

COLLEGE OF BUSINESS AND ECONOMICS

FINAL ASSESSMENT (EXAMINATION)

DEPARTMENT OF BUSINESS MANAGEMENT

MODULE	:	**CONTEMPORARY STRATEGIC ASPECTS**
CODE	:	**STM8X01**
DATE	:	**13 NOVEMBER 2017**
DURATION	:	**180 MINUTES plus 20 minutes reading time**
TOTAL MARKS	:	**300**

EXAMINER	:	**TFJ Oosthuizen**
MODERATOR	:	**Dr H Jacobs**
NUMBER OF PAGES	:	**14 Pages**

INSTRUCTIONS:

ANSWER ANY 3 (THREE) OF THE POSSIBLE FIVE QUESTIONS.

- This is a paper-based open book assessment.
- Read the questions carefully and answer only what is asked.
- Number your answers clearly.
- Submit your answer in a clearly structured (using headings, sub-headings, paragraphs, figures, tables and bullets for listing) and written format.
- **Answer one question per answer book.**
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

Submit your QUESTION PAPER with your answer books.

Please read the following case study and then answer the questions

Case study: First National Bank (FNB)

1. History and overview

FNB is the oldest bank in South Africa, and can be traced back to the Eastern Province Bank formed in Grahamstown in 1838. Today, FNB trades as a division of FirstRand Bank Limited. When looking at FNB's history, two things in particular stand out. The first is a story of survival - different circumstances in South Africa have posed many great challenges in their history, all of which FNB has successfully met. This track record provides a strong foundation for their future challenges. The second is a story of people - their history has always been firmly influenced by the needs of the people they serve.

The Acacia tree in their brand logo is a suitable representation of their history. Their roots run deep in South Africa, and they have grown thanks to their commitment to serving the needs of their clients and communities.

A landmark development in FNB's history took place in 1998 when the financial services interests of Rand Merchant Bank Holdings and Anglo American were merged to form FirstRand Limited. In the process, FNB was delisted from the JSE on 22 May 1998 to become a wholly-owned subsidiary of FirstRand, which was listed on the JSE on 25 May 1998. On 30 June 1999, the banking interests of FirstRand formally merged into a single entity to form FirstRand Bank. FNB, WesBank and RMB now trade as divisions of FirstRand Bank. FirstRand Bank Limited is a wholly owned subsidiary of FirstRand Limited, and has a number of divisions, including Rand Merchant Bank (the investment bank), FNB (the retail and commercial bank) and WesBank (the instalment finance provider).

2. Values and culture

FNB is perceived as an innovative financial services provider.

Their Culture

At FNB, the "owner manager" culture is at the core of how they do business. Smaller, more agile groups of businesses mean they're more flexible, able to react more quickly to situations and are more competitive - while also emphasising collaboration. And while they have an entrepreneurial drive to action, they're never arrogant.

Their Values

They guard their values jealously, as does everyone who works at FNB, because they understand their importance in maintaining the culture of the bank.

Their values are:

- I'm helpful
- I'm effective
- I'm innovative
- I'm ethical
- I'm accountable

3. Sustainability

At FNB, their vision is to transform a good business to a great business and to help create a better world.

FNB views sustainability as a business practice which creates value for stakeholders through managing environmental, social and governance factors impacting the company's ability to generate sustainable profits. They are a values-based organisation, with core values of pride, accountability, innovation, Ubuntu and respect. These values serve as a guide when making business decisions and in their dealings with all stakeholders, including colleagues, customers, investors, suppliers, the community and the environment.

FNB acknowledgements:

- SA's Coolest Bank, Sunday Times Generation Next Survey, 2012-2016.
- #1 Business Bank, Sunday Times Top Brands Survey, 2013-2016.
- Bank with the Strongest Reputation, RepTrak™ Pulse Survey, 2015 and 2016.
- Most innovative MVNO, Telecoms.com Awards, 2015 and 2016.
- Best digital bank, internet banking site and mobile banking experience in South Africa, SAcsi Survey 2016 and Columinate Internet Banking SITEisfaction Survey 2016.
- Best Islamic Banking Offering, Banker Africa's Annual Southern African Banking Awards, 2016.
- FNB banking app wins Best in Customer Experience Award, Bank Customer Experience (BCX) Summit, Chicago, 2016.
- FNB Joburg Art Fair wins Chairman's Premier Award, Business and Arts SA (BASA), 2016.

Transformation:

Transforming South Africa starts with FNB. Employment equity is just one part of the transformation story, but their progress has been encouraging in this area. For example: 77% of their employees are African, Coloured or Indian (ACI). 63% of their ACI employees are female. When it comes to Employment Equity (EE), 2016s most notable successes included the appointment of women and ACI males into senior and executive roles on the

executive committee and product houses. They also added a significant number of young African and Coloured graduates to their talent pool.

Training and development:

They continue to invest extensively in equipping their people with the skills and learning they need to deliver on behalf of their customers. They spent R162.6 million on learnerships and R410.3 million on skills development. In line with FNB's owner-manager culture, they implemented a career explorer site that allows staff to explore the numerous career paths that are open to them. They remain committed to equipping talented women to take control of their careers and unlock their full potential. The FNB Catalyst Women's Development Programme and FNB Ignite Women's Development Programme continued to run successfully.

Leadership development:

Identifying and developing world-class leaders capable of achieving change and delivering their 2025 vision remains a business-critical priority. Channels for delivering learning and development material to their leadership teams are changing rapidly. In response, they acquired an e-learning platform designed to provide leaders with anytime, anywhere learning and development solutions. In parallel, they are taking a more holistic approach to leadership development (LD). Among other steps, this involves moving away from the classroom and embarking on a series of conversations with leaders to enhance organisational effectiveness from several perspectives including diversity, wellbeing and collaboration. The two LD programmes launched in 2015 – "And Beyond" and "Alchemy" – are proving very successful. They are now taking steps to build on their success and reinforce the impact by making content more business-relevant and focusing them towards natural teams rather than a group of individuals. Looking ahead, their biggest challenge is to ensure their leaders are fully prepared for a more VUCA world – volatile, uncertain, complex and ambiguous. Essentially, this means focusing on how their leaders can do more with less and become more collaborative, agile and aligned.

Employee engagement and strategic alignment:

Two platforms enable their Points of Presence teams to share knowledge, seek advice and provide answers to work-related questions: PoPChat, a micro-blogging platform, and "Ask the Expert", a peer-to-peer question and answer platform. They believe that the key to engaging employees lies in making ensuring that they enjoy challenging and fulfilling work as the norm. This is important to them, because they want to remain the country's "coolest" bank with a culture in which diverse talents can thrive. Their agility, alignment and strategic direction scores were also high, indicating a keen competitive edge combined with a strong ability to link jobs to their core strategy.

On a local level, they engage employees through focus groups. Various parts of the business also hold roadshows, which allow their leaders to communicate key messages directly to staff. They engage employees through their Global Employee Survey. The

latest survey revealed high levels of engagement, with a score of 84%. Looking ahead, the key challenge involves keeping their people engaged in tough economic times. They believe they can achieve this by focusing on building resilience to handle uncertainty and developing their new business lines.

Attracting and retaining talent:

Attracting and retaining talent remains a significant challenge. During the year, they encountered a rising demand for technical enterprise architects as well as people capable of managing big data, building digital solutions for ecosystem products and delivering process efficiencies.

In response to these challenges, they have added non-traditional channels such as technology conferences and innovation hubs to their established talent sourcing channels. They also created a dedicated sourcing team to headhunt scarce skills via social media sites. Looking ahead, their key challenges include ensuring that their employer value proposition remains attractive. With this in mind, they are evolving their recruitment strategy by targeting the specific requirements of niche talent.

Invested in their customers:

They are making it easier, faster and more rewarding for a growing number of personal and business customers to take maximum control over their financial affairs whenever they need to, wherever they are – 24/7. Through their Points of Presence (PoP) division, they are widening access to their banking services.

Shaping the future. A number of factors influenced their decision, among them, the accelerating migration to digital and self-help banking channels. They took steps to offset the impact of these closures by, for example, introducing extended opening hours at other branches and launching their peak relief project, which deploys relief staff to help branches cope with additional customer traffic. With rural communities in mind, they continued to expand their ATM and ADT networks. They also introduced FNB's pioneering mobile banking container units.

Large numbers of people in South Africa and across the continent still have limited access to banking services. In response to this challenge, they introduced a distinctly African solution – their mobile banking container units. Constructed from shipping containers, these units can be easily moved, as demand for banking services fluctuates from area to area among more remote communities. These offer rural customers a comprehensive range of banking solutions – from teller services to ATM/ADT services as well as savings and investment services.

Protecting customers:

The digital banking revolution that they are leading continues to open up a world of benefits and possibilities to their customers. But the fact is online banking also presents a number of risks. They have a duty to protect their business, customers and their

communities from all forms of criminal activity including fraud, theft, money laundering and corruption. When it comes to fraud and risk, they operate a zero-tolerance policy.

Cybercrime increased significantly and FNB was exposed a number of targeted attacks. In parallel, fraudsters are using more advanced technology and techniques to take over customer accounts. Emerging fraud trends during 2016 included: digital fraud, transactional fraud and scams, where customers respond to adverts or emails which entice them to purchase goods or services that don't exist.

They responded to these threats with a broad range of measures, such as:

- Enhanced anti-money laundering/counter-terrorist financing systems
- Biometric ID and verification technology. FNB is among the biggest users of biometric security technology in South Africa's banking industry. Launched with the Department of Home Affairs in December 2015, their online fingerprint verification (OFV) system has helped achieve a dramatic reduction in account takeovers.
- Enhanced digital fraud prevention. They introduced new online security measures and tightened controls that significantly limit fraud on digital channels, including phishing scams and SIM swaps.
- Fraud models. They are developing and deploying a significant number of predictive models across products as a preventative tool to protect customers.
- Ponzi scheme detection. FNB uses various methods to detect these schemes, including monitoring media and running internal models to try to detect suspect activity on accounts.
- Education and awareness programmes. They invest heavily in educating customers as well as staff on the risks associated with online banking – and how to manage them.

They also work closely with the South African Banking Risk Information Centre (SABRIC) and the South African Fraud Prevention Service (SAFPS) on various strategic initiatives that involve analysing data to detect, identify and prevent fraud. They have also engaged payment clearance specialists, Bankserv, to develop a transactional fraud model to detect and prevent fraud.

Living the spirit of Ubuntu:

Employees participate in a range of volunteering activities. From establishing community gardens and bakeries to spending time with hospital patients awaiting treatment, from working in creches and schools to helping out in animal shelters, the range of voluntary activities continues to expand. Volunteers made a strong effort to encourage their colleagues to volunteer as marrow donors as well as blood donors.

Invested in their environment:

As a FirstRand franchise, FNB is governed by the group's stringent policies when it comes to managing their environmental impact and the way they use natural resources. What's more, they also take active measures to integrate the principles of environmental and social risk management into their decision-making processes.

- In 2016, the group's total carbon footprint for its South African operations decreased by 7%.
- Their PoP teams achieved the highest level of energy savings in FNB during 2016, cutting consumption by almost 6 million kwh per month.
- Reducing branch floor space by 11 000m2 enabled PoP to save an additional R1 million.

The UK-based Carbon Disclosure Project (CDP) works with 3 000 of the world's largest corporations to make carbon emission reduction integral to their business. As part of the FirstRand group, FNB has participated in the CDP since 2008. In 2016, FirstRand received CDP Gold Awards for appearing on the Carbon Disclosure Leadership Index and the Carbon Disclosure Performance Index for six years or more.

Managing environmental and social risks:

- In 2009, FirstRand adopted the Equator Principles, an international framework covering the management of environmental risks for deals with project capital costs exceeding US$10 million.
- The group also applies its own Environmental and Social Risk Assessment process – ESRA – to all business-related transactions across all FirstRand franchises.
- FirstRand screened 6 530 lending transactions for environmental and social risk in its South African operations, and engaged with clients on their environmental and social risk management processes relating to 3 166 transactions.
- In total, 92% of these deals were originated by FNB.

4. Environmental focus

4.1 Environmental policies and compliance

The bank's environmental policies cover two broad areas:

- The direct environmental impact of their own daily operations, which is governed by their Environmental Health and Safety Policy
- The bank's indirect impact on the environment in terms of responsible lending and business development, which is governed by their Environmental Risk Policy

In addition to the corporate action described above the strategy of the Group, where appropriate, has been starting and growing completely new businesses, which the Group refers to as its "greenfields" approach.

Examples of significant 'greenfields' start-ups by the Group include:

- King II Code
- JSE SRI Index
- Principles of the UN GRI Index
- UN Global Compact
- Carbon Disclosure Project

At FirstRand level, an Environmental Committee discusses relevant issues and reports to various executive committees, as well as the Board of FirstRand Bank. There is also a Group Environmental, Health and Safety Manager who manages environmental issues for the bank.

FNB's Environmental, Health and Safety representatives have to undergo formal training that includes a module on environmental management, with a pass rate of 90%. An online learning module about the importance of environmental management and FNB's environmental initiatives is also made available to all new employees.

Every business unit has a compliance officer, who reports on any non-compliance issues. Compliance with environmental legislative requirements and the group's sustainability reporting (excluding Financial Sector Charter reporting) are audited by FNB's internal auditors. The bank is also audited by PricewaterhouseCoopers on environmental management, ISO 14001:2004 standards. Financial Sector Charter Reporting is audited annually by Sizwe Ntsaluba VSP.

4.2 Paper saving initiatives

The nature of their business is paper-intensive and FNB is constantly looking for ways to minimise and manage the utilisation of this resource.

Electronic statements:

- The bank offers their customers the option of receiving their monthly credit card and cheque account statement electronically, rather than in paper format. They have introduced a reduced electronic service fee incentive to encourage their customers to move to electronic channels. As a result of the switch to electronic statements, they reduced their paper consumption by 22 354kg in the last financial year.
- The knock-on effects of this change include a reduction in the use of printing ink and equipment, as well as envelopes, postage and associated processes.

Recycled paper:

- FNB has piloted the use of recycled paper in many areas of Head Office operations.
- Educational initiatives regarding efficient printing methods, such as the re-use of paper, duplex and similar printing, have been run.
- Employees have been encouraged to make use of online information, rather than printing documents.
- They are currently considering using recycled paper for their letterheads and branded documents.
- To encourage the recycling of white paper, employees at the head office, BankCity, have been provided with special bins at their workstations to deposit recyclable material.

4.3 Energy + water conservation

Energy saving initiatives:

- As the largest concentration of their employees is at BankCity, their head office, a number of initiatives have been implemented there to promote energy savings. The results of this have been incredible, with BankCity achieving a benchmark saving of around R300 000 per month in 2005.
- BankCity management has entered into an agreement with Eskom where engineers have assessed the complex to identify areas where energy could be saved.
- All lights in BankCity have been changed to energy saving globes and triple tube lights have been replaced with double tubes.
- Lights that used to remain on constantly are now switched off during the night and override switches have been installed. They are currently in the process of installing occupancy sensors in pause areas as well as meeting rooms which stands empty most of the day.
- The air conditioning system has been optimised to use less energy.
- Where possible, catering equipment has been converted from electricity to gas.
- Dishwashers that used to be located in all employee rest areas are being phased out.
- Large fridges in these areas are being replaced with smaller ones that use less energy.
- Fans in basements that ran 24 hours now only run when required. It is connected to CO2 sensors which automatically increases the speed of the fans as the amount of carbon monoxide increases.
- All the lifts in BankCity are being replaced with new models that run off energy efficient motors and use 70% less power.

- A feasibility study was conducted on the installation of a solar panel on the roof of one of the buildings to heat water for use in the hand basins in the toilets. Currently, this has proved not to be financially viable but research is ongoing.
- FNB is currently launching a competition for the best energy saving idea among their employees, with prize money for the three best initiatives.

Water care:

- Awareness about water conservation is raised through training and internal communications.
- Water readings are taken regularly at BankCity so that excessive use can be identified and investigated immediately.
- At BankCity, grey water is directed into a dump, where it is treated before being used in the fountains in the buildings' piazza.

4.4 Suppliers and other third parties

- FNB actively engages with suppliers and contractors on environmental issues, and will in future include their customers and other interested parties.
- Their Purchasing and Supply Management policies insist on the sustainability of all operations.
- They engage their suppliers on environmental issues and support them in implementing initiatives that improve their SRI Index on the JSE.
- They are currently evaluating the use of recycled paper in conjunction with their paper supplier, Bytes Document Solutions, as well as Sappi and Mondi.
- Due to the large volumes of printing done at FNB, issues in terms of manufacturer's warranties and guarantees on printing equipment arise when recycled paper is used. They have engaged with the suppliers of these machines to test the acceptance of recycled paper, reduce paper consumption and eliminate the use of paper made from hardwoods.
- FNB is currently in the final stages of choosing an IT consumable supplier, and the tender process has included issues such as collecting and recycling printer cartridges, ribbons and other consumables, as well as other waste management planning.
- In future, all FNB's tender processes will include a section on the prospective supplier's environmental policies, as well as other sustainability issues. Regular reporting on strategy development initiatives will be required from suppliers.
- Training material about the bank's environmental management objectives is being prepared for contractor and suppliers.

4.5 Community projects

- A portion of FNB's Corporate Social Investment funds is donated to projects that work in favour of the environment.
- Some branches have arrangements with Mondi Paper to collect used paper for recycling. In lieu of payment, they cede their profits to Mondi's CSI initiatives, such as Hospice and the SPCA.
- Some branches send reusable material to community recycling projects.
- Other branches donate their used paper and other materials to local artists for use in their work.

4.6 Environmental awards

FNB's environmental awareness and initiatives have been recognised through the following awards:

- Deloitte and Touche Award for Sustainable Development.
- Mail and Guardian Greening the Future Award for The Company with the Most Improved Environmental Performance.

5. Launching the associate model in branch banking

The Associate Banker Model allows a person to master their own destiny and will change the face of FNB's business as well as the industry. It has been designed to give the best people in the business the best opportunity to drive revenue for the bank and wealth for themselves. The owner manager principle will give the incumbent the authority and autonomy to drive a retail branch as their own business.

FNB is re-engineering banking, and they're starting by looking for the best people, who will become Associate Bankers within their top branches, which will be aligned to an owner manager business model. As a result, they're looking for the highest calibre bankers to take ownership and leadership of these branches. With a significant remuneration package this will be the most sought after position in the entire business and will give the Associate Bankers the opportunity to create substantial wealth for themselves and revenue for the business. FNB is changing the rules of the game because no other retail bank in South Africa is remunerating its people through profit sharing.

The Associate Model creates an enabling and supportive environment that recognizes and rewards top talent and grants them rights to operate the business of the branch, as FNB employees. This means that such a person:

- Have a greater degree of empowerment in the operation of the business
- Can effectively and efficiently manage costs
- Sustainably outperform revenue growth when compared to the hurdles
- Appropriately manage risk and compliance

- Remain in the business for the long-term
- Attract, grow and retain the best staff.

Source: First National Bank. 2017. Online. Available from:

http://www.firstrand.co.za/Sustainability/ReportsToSocietyFNB/2016%20FNB%20report%20to%20society.pdf

https://www.fnb.co.za/about-fnb/about-us.html#slide2

https://www.fnb.co.za/about-fnb/about-us.html#slide3

http://www.fnbweb.co.za/associatemodel/

[Accessed 7-8 August 2017].

....PTO/for questions

QUESTIONS

Answer ANY 3 (THREE) of the following questions:

QUESTION 1 (100)

Identify and apply each of the steps of a comprehensive change management process (not Lewin) which could have been considered by the strategic team of FNB in order to manage a change intervention such as the implementation of the associate model in branch banking.

QUESTION 2 (100)

FNB functions within a continuous changing and evolving business context. The fifth wave supported by the Fifth discipline, is proposed as a framework to facilitate change within this demanding context. Identify the five principles presented by Peter Senge for developing a learning organisation and explain how each of these five principles can be developed and implemented by FNB.

QUESTION 3 (100)

3.1 Identify two (2) of the megatrends proposed by Clem Sunter (21st Century Megatrends) that have a direct impact on an organisation such as FNB. Explain each of these trends and debate the relevance of these two selected trends to the FNB business environment scenario presented in the case study.

[50]

3.2 Identify two (2) of the global megatrends proposed by PWC (2017) that have a direct impact on an organisation such as FNB. Explain each of these trends and debate the relevance of these two selected trends to the FNB business environment scenario presented in the case study.

[50]

QUESTION 4 (100)

You are required to debate the meaning, relevance and relation of the following change drivers: risk (management), collaboration, and sustainability. Furthermore, indicate how FNB uses these change drivers to establish a strategic competitive advantage.

QUESTION 5 (100)

Analyse the interpretation of the organisational culture of success at FNB. Also, investigate to what extent success at FNB encompasses 'ethical business practice' and 'corporate social responsibility'.

TOTAL [300]

End of paper